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# Report On The Workshop On Private Voluntary Organizations And Small-Scale Enterprise Development

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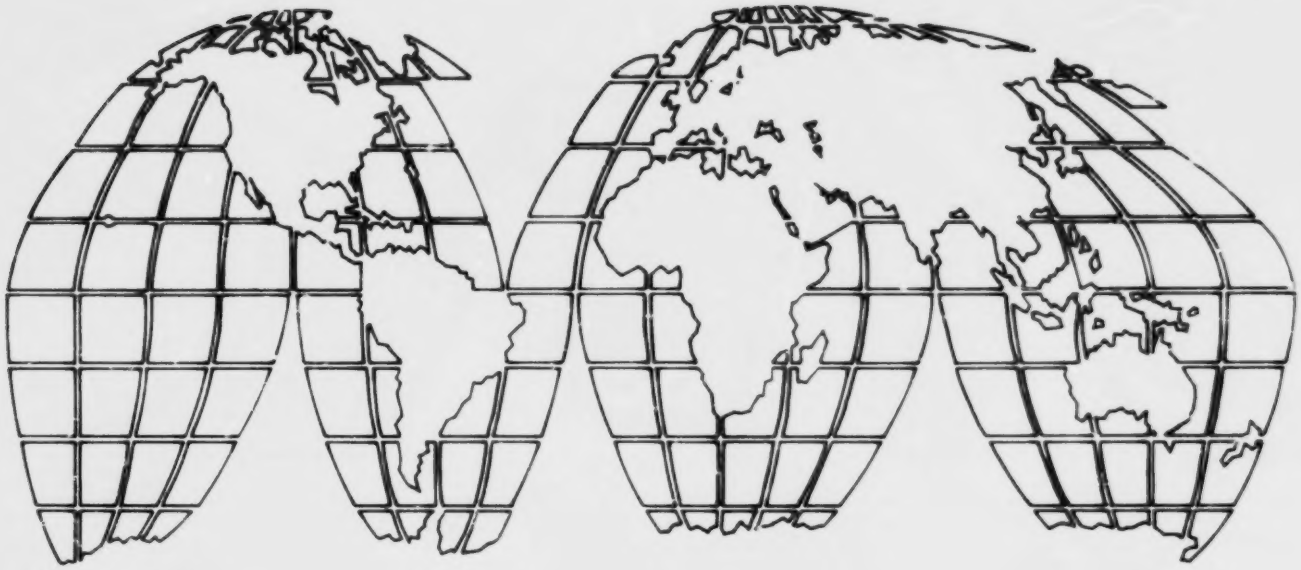

July 1985
U.S. Agency for International Development (AID)

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# REPORT ON THE WORKSHOP ON PRIVATE VOLUNTARY ORGANIZATIONS AND SMALL-SCALE ENTERPRISE DEVELOPMENT

OCTOBER 31 - NOVEMBER 2, 1983
WASHINGTON, D.C.

AID PROGRAM EVALUATION DISCUSSION PAPER NO. 22

by

The Office of Private and Voluntary Cooperation
Bureau for Food for Peace and Voluntary Assistance

U.S. Agency for International Development

July 1985

The views and interpretations expressed in this report are those of the Office of Private and Voluntary Cooperation and should not be attributed to the Agency for International Development.

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## FOREWORD

This paper is one of three sponsored by the Bureau for Food for Peace and Voluntary Assistance, Office of Private and Voluntary Cooperation (FVA/PVC) of the Agency for International Development (AID) on the role of private voluntary organizations (PVOs) and the development of PVO small-scale enterprises. The papers and workshop report represent a collaborative effort of FVA/PVC and the Bureau for Science and Technology, Office of Rural and Institutional Development (S&T/RD). All are available from the Center for Development Information and Evaluation.

The other two papers are as follows:

AID Evaluation Special Study No. 27 (PN-AAL 055), Private Voluntary Organizations and the Promotion of Small-Scale Enterprise, July 1985. This paper discusses some central issues of private voluntary organizations' activities relevant to PVO small-scale enterprise development and provides a summary of what is known about where and how voluntary projects best promote small-scale enterprise development.

AID Evaluation Special Study No. 28 (PN-AAL 056), Searching for Benefits, June 1985. This study examines five small or microenterprise development projects, four of which were designed and implemented by private voluntary organizations. It seeks to measure the costs and net economic benefits or additions to national income resulting from the projects.

We are indebted to the authors of these papers for their contributions to AID's understanding of the role of small-scale enterprises in development.

W. Haven North
Associate Assistant Administrator
Center for Development Information
and Evaluation
Bureau for Program and Policy
Coordination
Agency for International Development

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## SUMMARY

A workshop on private voluntary organization (PVO) small-scale enterprise projects was held in Washington, D.C. from October 31 to November 2, 1983. The major goals of the workshop were to review recent assessments of small-scale enterprise projects, particularly those of PVOs, and to make recommendations to donors and PVOs concerning the project activities that should be supported in the future. Discussion at the workshop was organized around questions dealing with benefits to be sought in small-scale enterprise projects, the best means of producing desired benefits, the comparative advantages of PVOs in small-scale enterprise promotion, and the ways in which major donors might best support development of small-scale enterprise in the future.

### Conclusions on Benefits

1. Benefits to be sought should include economic improvements in the performance of firms and expansion of their linkages with the local economy.

2. Social benefits are important. These include community or human resource development and political changes. Beneficiaries need to influence policymaking if their efforts are to be self-sustaining.

3. The sequence of benefits can be critical. Opinions differ on the priority to be accorded economic and social outcomes and whether they will be contradictory or complementary.

### What Works To Produce Benefits

1. PVOs can promote and implement highly cost-effective small-scale enterprise projects.

2. Ample credit, supplied through well-managed financial institutions, is the most important factor in the achievement of success.

3. Technical assistance (training and extension services) can be an integral part of small-scale enterprise projects. Such assistance is most effective when it is carefully tailored to specific needs, limited in scope and duration, and carried out by individuals with skills appropriate to the specific tasks at hand.

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4. Project impact can be maximized while effectively limiting costs if financial (and technical) assistance is (a) given to those types of firms most likely to generate economic linkages (for example, larger industrial and service firms rather than trading enterprises); (b) provided on a repeat basis to firms that repay earlier loans; (c) jointly administered by well-organized beneficiary groups, particularly when the firms are very small; and (d) provided at rates covering inflationary effects on the local economy.

5. Among the factors that can make small-scale enterprise projects more equitable, even if more costly in the short run, are (a) efforts to increase inputs by beneficiaries into project design and implementation activities; (b) assistance in the development of institutions that can mediate with the government and with market institutions in behalf of small-scale enterprise; (c) efforts to provide a supportive network (local, national, and international PVOs as "umbrella groups") to give visibility and support to project activities and highlight policy changes desired by small-scale enterprise; (d) the targeting of assistance (by limits on loan size, for example) to the poor and to those with more entrepreneurial dispositions; and (e) a concentration on means for channeling some returns from enterprise development to collective (community) activities.

## Comparative Advantages and Disadvantages of PVOs

1. The workshop provided an opportunity for assessing most of the reputed advantages of PVOs for carrying out development projects. Characteristics such as flexibility, low personnel costs, and a capacity to work over extended periods with the poor while gaining their trust were considered to be of particular importance in explaining the relative success of several PVO projects that were evaluated.

2. Disadvantages of PVOs were also considered. Field staff may have insufficient technical expertise to assist small-scale entrepreneurs. As organizations, they often tend to give too little attention to issues of financial management, and operations may be too small to provide more than minimal assistance with development problems. There were indications, however, that small firms often need advice on nontechnical matters as well.

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3. Despite the limitations, the most striking evidence presented from the evaluations completed for the workshop was that PVO small-scale enterprise projects can be quite cost-effective.

## Future Prospects and Recommendations

To take advantage of the body of knowledge and experience represented by the PVO small-scale enterprise projects, major donors and PVOs should consider the following actions:

1. Further refine, apply, and disseminate the methodologies of experienced PVOs working with small-scale enterprise projects.

2. Encourage additional workshops, especially in the field, to apply experience gained from the use of the refined methodologies.

3. Support the publication of a "how to" sourcebook for PVOs interested in starting small-scale enterprise projects.

4. Support individual PVOs in their efforts to scale up programs that assist small firms through international collaboration with larger donors, governments, and international business organizations (including trade associations).

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## PREFACE

This report provides an important benchmark in our learning process about the role of private voluntary organizations (PVOs) in promoting and developing small-scale enterprises.

Over the past 3 years the Bureau for Food for Peace and Voluntary Assistance, Office of Private and Voluntary Cooperation (FVA/PVC) of the Agency for International Development (AID) has sponsored a series of field studies of small-scale enterprise projects assisted by PVOs. This culminated in a workshop held from October 31 to November 2, 1983 and attended by 58 people, including PVO representatives, donors, evaluators, and other specialists who met in Washington, D.C. to review the lessons that have been learned from experience to date and to recommend future action.

The first 2 days of the workshop were organized into separate plenary sessions and small group discussions focusing on the following four questions:

1. What are the benefits of small-scale enterprise development?

2. What works and at what cost?

3. What is the PVO role in small-scale enterprise development?

4. Where do we go from here?

A final half day of discussion provided an opportunity for ad hoc groups to discuss separately topics such as the measurement of benefits and the creation of an integrated methodology to collectively assess economic and social/political dimensions of small-scale enterprise development in the future.

The workshop was successful in beginning to answer the questions listed above. It also stimulated discussion between AID and other agencies about greater PVO involvement in income-generating activities and small-scale enterprise development abroad.

Tom McKay, Director of FVA/PVC, told the assembled gathering that this was the first workshop sponsored by AID on small-scale enterprise development and the role of PVOs and noted that PVC focused on this sector because of its importance to income-generation activities in local development situations assisted by PVOs. He said it was of prime importance for the workshop to produce a product to share with PVO and AID field staff, as well as other practitioners. This report is that product.

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In opening remarks at the workshop, Julia Bloch, Assistant Administrator of FVA, said the recommendations of the participants would be taken very seriously. She emphasized that the workshop "is both an end and a beginning--the end of several years of collaborative efforts by FVA, AID's Bureau of Science and Technology, the Bureau for Policy and Program Coordination/ Office of Evaluation, and the private voluntary organizations to systematically evaluate work in this sector. It is also the beginning of an opportunity to apply lessons to future small-scale enterprise projects."

In organizing the workshop, we made a special effort to invite individuals with a broad spectrum of experience. We sought and were successful in gaining the participation of economists and noneconomists who have been key contributors to the small-scale enterprise literature, representatives of donors and PVOs, and evaluators and evaluatees. This spread of viewpoint produced an interesting chemistry in which few assumptions were left unchallenged. It also made the task of writing this summary quite demanding.

Robert Hunt, Illinois State University consultant, has taken on the difficult task of helping PVA/PVC in summarizing the discussions and recommendations that developed from the workshop. We asked him to do this because he wrote the earlier issues paper on small-scale enterprise development, he participated in one of the evaluations in the field, and, along with Peter Kilby, he prepared one of two preworkshop papers in which the results of the evaluation series were analyzed.

We expect that this document, and efforts to follow up on its recommendations, will help sustain the momentum of the workshop. We hope that the substantial energy participants put into the event will be amply rewarded.

Ross E. Bigelow
Office of Private and Voluntary Cooperation
Bureau for Food for Peace and Voluntary Assistance
Agency for International Development

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## GLOSSARY OF ABBREVIATIONS

| | | |
|---|---|---|
| AA/FVA | - | Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance |
| AFR/DP | - | Bureau for Africa, Office of Development Planning |
| AID | - | Agency for International Development |
| ASIA | - | Bureau for Asia |
| ATI | - | Appropriate Technology International |
| BKK | - | Central Java Provincial Credit Program (Badan Kredit Kecamatan) |
| DAI | - | Development Alternatives, Inc. |
| DDF | - | Dominican Development Foundation |
| D-GAP | - | Development GAP |
| FVA/ACVFA | - | Bureau for Food for Peace and Voluntary Assistance, Advisory Committee on Voluntary Foreign Aid |
| FVA/FFP | - | Bureau for Food for Peace for Voluntary Assistance, Office of Food for Peace |
| FVA/PPE | - | Bureau for Food for Peace for Voluntary Assistance, Office of rogram, Policy, and Evaluation |
| FVA/PVC | - | Bureau for Food for Peace for Voluntary Assistance, Office of Private and Voluntary Cooperation |
| NCCK | - | National Council of Churches of Kenya |
| NE/TECH | - | Bureau for the Near East, Office of Technical Support |
| OICI | - | Opportunities Industrialization Centers International |
| PACT | - | Private Agencies Collaborating Together |
| PfP | - | Partnership for Productivity International |
| PPC/E | - | Bureau for Program and Policy Coordination, Office of Evaluation |
| PPC/WID | - | Bureau for Program and Policy Coordination, Office of Women in Development |

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| | | |
|---|---|---|
| PRE | - | Bureau for Private Enterprise |
| PVO | - | Private voluntary organization |
| SED | - | Small-scale enterprise development |
| S&T/MD | - | Bureau for Science and Technology, Office of Multisector Development |
| S&T/MD/ESE | - | Bureau for Science and Technology, Office of Multisector Development |
| S&T/RD | - | Bureau for Science and Technology, Office of Rural and Institutional Development |
| UNO | - | Northeast Union of Assistance to Small Business (Brazil) |

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## 1. INTRODUCTION: BASIC PURPOSES AND GOALS OF THE WORKSHOP

The workshop on private voluntary organizations (PVOs) and small-scale enterprise development represents the culmination of over 3 years' effort by the Bureau for Food for Peace and Voluntary Assistance, Office of Private and Voluntary Cooperation (FVA/PVC) of the Agency for International Development (AID). Over that period several evaluations of PVO small-scale enterprise projects were conducted by PVC, and meetings were held to review the findings. These findings were supplemented with evaluation data generated by other AID offices and other development agencies, so that a substantial body of current information pertinent to the voluntary sector and enterprise development has been assembled.

A workshop to consider what has been learned and appropriate future directions was held from October 31 to November 2, 1983, in Washington, D.C. Participants represented PVOs, AID, other donors, and evaluators. The following purposes were set down for the workshop:

-- To review recent assessments of small-scale enterprise development experience and debate the lessons learned

-- To assess under what circumstances PVOs are most effective in undertaking small-scale enterprise development projects

-- To determine the degree to which small-scale enterprise development is a good investment for PVOs and donors seeking to promote socioeconomic development in developing countries

-- To assess criteria and methods for the evaluation of PVO small-scale enterprise projects

-- To make recommendations to PVOs concerning the design and evaluation of future small-scale enterprise projects

-- To make recommendations to donors with respect to future support for PVO small-scale enterprise development projects

To accomplish these tasks, four questions were provided as the focus for work during small group and plenary sessions of the workshop. They are as follows:

-- What are the major potential benefits of small-scale enterprise projects?

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-- In small-scale enterprise projects, what works best to produce these benefits and at what cost?

-- What advantages do PVOs have for creating these benefits?

-- What are the ways in which AID and other donors can assist in the future to increase the capacity of PVOs to develop effective small-scale enterprise projects?

Two papers were used to introduce the workshop discussions. One, by Robert Hunt, summarized the lessons that have been learned from a large number of small-scale enterprise projects, including several PVO projects evaluated by AID.[1] The other, by Peter Kilby, and David D'Zmura, provided a series of lessons from many of the same projects based on an application of benefits analysis.[2]

Hunt's paper provides generalizations about the significance of different credit and technical assistance packages in promoting small-scale enterprise development. These generalizations indicate the relative importance of various project inputs. He discusses how the significance of inputs varies with competing priorities among possible benefits. This assessment produces several possible rankings of small-scale enterprise project inputs, reflecting differing assumptions about the importance of economic growth, equity, participation, and the development of market and community institutions. Concluding sections in the paper deal with current, more integrative enterprise development projects. These projects, which take a more holistic approach, handle more effectively the contradictions that plague more narrowly focused interventions. They fit their setting better and contribute to the process of institution building.

Kilby's paper offers a concise measuring rod to assist in explaining the variance in performance among projects in terms of a variety of causal factors. His measurement is the net economic benefits, or additions to national income. With it he seeks to achieve two objectives: first, to compare the benefit-cost ratios of small-scale enterprise projects with aid programs in other sectors; and second, to develop a specially tailored approach to small-scale enterprise which might serve as a stand-

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[1]Robert W. Hunt, Private Voluntary Organizations and the Promotion of Enterprise (Washington, D.C.: U.S. Agency for International Development, Spring 1985).

[2]Peter Kilby and David D'Zmura, Searching for Benefits (Washington, D.C.: U.S. Agency for International Development, Spring 1985).

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and methodology for the future. Using these tools, Kilby provides a rigorous, comparative analysis of several small-scale enterprise projects. His findings provide positive conclusions about the significance of past accomplishments by PVO small-scale enterprise projects. They represent strong evidence on behalf of the potential contributions of PVOs, suggesting that these organizations can work effectively with the poor and can produce benefits efficiently.

The 2 days of discussion at the workshop drew on the basic research of the papers by Kilby and Hunt and was organized around the four questions presented above.

## 2. BENEFITS AND THE MEANS OF PRODUCING THEM

During the small group and plenary sessions of the workshop, discussions of benefits focused on many areas. This reflected the great diversity in project types and approaches to development of implementing agencies, mostly PVOs. With regard to benefits, several major points were made.

First, small-scale enterprise project benefits should include improvements in business performance (jobs, income) and the expansion of the local economy. They should also include improvements in community welfare through project impacts on social and political institutions in the immediate target area and beyond.

Second, some differences among participants emerged when efforts were made to deal more specifically with these benefit categories. The main differences centered on the approaches of those most concerned with social change, on the one hand, and those concerned with economic change, on the other. Are there situations in which one category of benefits is more important than others? Alternatively, is it preferable to see benefits in a comprehensive sense and to resist making sharp distinctions between social and economic issues? How might social and economic changes reinforce each other? There was evidence in the documents used in the workshop that attention to social change can produce significant economic returns.

Third, it is difficult to reach a consensus on benefits, because differing perceptions are rooted in the basic values of individual analysts. Some prefer to talk in terms of unit costs whereas others talk in terms of empowerment. More effective steps must be taken to bridge differing conceptions and to develop a common approach to project design and evaluation.

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## 2.1 Economic Perspectives on Benefits

There was general agreement among the workshop participants that small-scale enterprises are a significant part of current and future efforts to deal with the problems of poverty and unemployment in developing countries. These small firms provide a means by which the poorest people in developing countries can become involved as owners and employees in business activities which are often critical income sources. Data collected by Carl Liedholm and associates at Michigan State University, among others, indicate that in many parts of the world as much as 50 percent of rural income comes from some type of small business operation. Moreover, cross-national data indicate that these business operations are becoming increasingly significant, even where there is competition from urban sectors. The paper by Hunt prepared for the workshop suggests that technological changes that lead to greater global interdependence will increase the need and opportunities for small firms in the future. Small-scale entrepreneurship thrives when economies are in transition. Thus, PVOs and other donors are likely to become more involved with the small-scale enterprise sector as they seek means for dealing with world poverty.

Workshop discussion on small-scale enterprise development and the PVO role began with the question of benefits. For most workshop participants, the most critical outcome to be pursued in small-scale enterprise projects is the economic performance of the firm itself. The improvement of firms at a reasonable cost is primary, because all else rests on it. The discussion of specific indicators of performance, therefore, concentrated on such factors as income generated, jobs and wages produced, production and sales increases, and profits. Following from the paper by Kilby and D'Zmura on benefits analysis that was used to introduce the workshop, attention was also given to the benefits derived from the impact of assisted firms in the broader marketplace. Among these factors are the amount of backward and forward linkages produced by new business purchases and by additions to local income generated by expanded economic activity. Also included are benefits to consumers resulting from the lowered prices produced by the greater efficiency and competition among assisted firms, as well as training provided to departed workers. Some, but fewer, references were made to impacts on national economies, such as potential foreign exchange savings generated by local production. If the connection between the development of informal and small-scale enterprise and government import policies was not always obvious, the opposite seemed to be clearer: where and when governments restricted imports, informal sector enterprises in particular seemed to thrive.

It was difficult for participants to agree on the means for ranking various outcomes. However, they did show widespread

agreement on the importance of all of these benefits. In particular, they appreciated the conclusion that it is normally a project's impacts beyond the individual firm that determine its ultimate success or failure.

## 2.2 Social and Political Benefits

None of the participants who spoke of the economic benefits of projects argued that they are sufficient in themselves. Many expressed strongly a concern that economic benefits be accessible over time to the poorest of potential and functioning entrepreneurs and through them to a broad spectrum of society. In addition, most participants expressed an interest in the pursuit of a range of noneconomic benefits and in seeing that potential beneficiaries had access to project outputs. They also were greatly interested in understanding the relationships among noneconomic and economic activities. Many of those participants involved with rural small-scale enterprise development seemed particularly concerned with the need to consider the impediments that obstacles created by the social structure place in the way of equity and project sustainability. These concerns stimulated an assessment of priorities. This included a discussion of an acceptable lag time for the introduction of economic or social concerns that were minimized during early stages of a project.

At least three types, or levels, of concern were discussed: individual, community, and institutional (or political). Individual factors were strongly emphasized as being a means for assessing project and business success. There was particular interest in project impacts on the basic attitudes of businessmen or women. In one of four small group discussions, the exposure of entrepreneurs to new attitudes, philosophies, and skills was ranked second in importance as a benefit, following only the development of the firm. These were seen as related to enterprise development and, ultimately, to the chances for self-reliance. In another of the small group discussions, similar concerns were raised, and it was established that emphasis on individual hope and self-esteem is central to personal and enterprise development. Another of the groups emphasized the importance of attitudinal changes in combination with economic developments. Here, the most fundamental benefit was seen to be an increase in the amount of free choice and self-direction that is possible for project beneficiaries. There was, in short, strong support for the notion that entrepreneurs and entrepreneurial attitudes are central to the success of small businesses, particularly to their capacity to contribute to economic development.

Attention was also focused on basic health and nutrition services at the community level; the development of outreach efforts to the very poor, particularly women; and advancing educational opportunities as relevant benefits for project planners and managers to pursue. Several references were also made by the participants to the need to pursue other community benefits. These included a reduction in the concentration of economic power, improvement in family life through the growth of job security for workers (with the likely effect that this would have in reducing urban migration), and an increase in overall community solidarity.

It was evident to many with long working experience in the sector how damaging negative government actions could be. Consequently, there was an extended discussion of ways to influence public policy. Perhaps the clearest of the political benefits considered was the formation of beneficiary (or solidarity) groups. These groups were seen by participants who stressed financial aspects of projects as having the potential to contribute to enterprise growth, particularly when they involved firms from the informal sector. Several project evaluations have indicated the cost-effectiveness of solidarity associations in processing applications for assistance, following up on borrowers, and providing informal extension services. Other participants, however, saw these groups more as ends in themselves. They appreciated the significance of the economic contributions of solidarity groups, but argued that individual empowerment and, more broadly, institutional development were the primary outcomes that should be pursued. Most important was the conclusion that they should be given high priority even where there was a price to pay in terms of other benefits foregone. Work summarized in the paper prepared by Hunt indicates that designers and managers of small-scale enterprise projects are seeking additional means for broadening the range of benefits sought. This would serve to make projects more equitable and thus more congruent with the value premises on which many PVO small-scale enterprise projects rest. It could also assist them to become more sustainable.

## 3. WHAT WORKS: MAJOR FACTORS THAT CREATE BENEFITS

Major inputs associated with small-scale enterprise projects over the years have been focused on credit, technical assistance, training, and institutional development. Participants considered ways of implementing these various inputs to achieve the greatest effect. The discussion produced the following general conclusions. Some, as might be expected, indicate issues for continuing debate.

1. PVOs can promote and implement highly cost-effective small-scale enterprise projects.

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2. Ample credit, supplied through well-managed financial institutions, is a critical factor in business survival and success.

3. Technical assistance (training and extension services) can be an integral part of small-scale enterprise projects. Such assistance is most effective when carefully tailored to specific needs, limited in scope and duration, and carried out by individuals with skills appropriate to the specific tasks.

4. Project impact can be maximized while effectively limiting costs if financial (and technical) assistance is (a) given to those types of firms most likely to generate economic linkages (for example, larger industrial and service firms rather than trading enterprises); (b) provided on a repeat basis to firms that repay earlier loans; (c) jointly administered by well-organized beneficiary groups, particularly when the firms are very small; and (d) provided at rates covering inflationary effects on the local economy.

5. Among the factors that can make small-scale enterprise projects more equitable, even if more costly in the short run, are (a) efforts to increase inputs by beneficiaries into project design and implementation activities; (b) assistance in the development of institutions that can mediate with the government and market institutions on behalf of small-scale enterprise; (c) efforts to provide a supportive network (local, national, and international PVOs as umbrella groups) to give visibility and support to project activities and highlight policy changes desired by small-scale enterprises; (d) the targeting of assistance (by limits on loan size, for example) to the poor and to those with more entrepreneurial dispositions; and (e) a concentration on means for channeling some returns from enterprise development to collective (community) activities.

## 3.1 Credit and Technical Assistance as Factors in Small-Scale Enterprise Development

Efficient credit programs are a centerpiece of most successful small-scale enterprise projects. A lending process, which is built on a well-trained, indigenous staff and which favors industrial or service firms because of their greater potential for backward linkages, provides a particularly cost-effective basis for promoting small-scale enterprise and local development.

For several of the workshop participants, these conclusions reinforced their relatively negative view of the contributions of technical assistance, which is another major input into small-scale enterprise projects. They believe that research and experience have failed to suggest instances in which this assist-

ance was vital or had changed entrepreneurial behavior to produce better business results. Training programs and various extension efforts were tolerated by participants in many cases only because loans were contingent on the completion of training activities or the acceptance of advisory services. Little evidence exists to indicate that the resources of time and money expended on training were worth the costs, even when these costs were minimal. Formal training for owners of microsector firms was particularly ineffective. Alternatively, extension services were rarely cost-effective, because it is difficult to have staff qualified to offer appropriate advice for the varieties of firms needing it. Judith Tendler, based on her own evaluation experience with a PVO project in Brazil and the results suggested by the paper by Kilby and D'Zmura, concluded that most successful small-scale enterprise projects have had no technical assistance components.

These views did not represent a consensus of workshop participants. Training and extension services did have strong proponents. Many participants were especially impressed with the assistance offered to microenterprises through the process of organizing beneficiary groups. Skills were transferred in this fashion, but a sense of social and political efficacy can be established as well. Beneficiary groups are also capable of institutionalizing an informal process of training and mediation, thus continuing to assist with technological transfer and training over extended periods. This assistance would be both inexpensive and effective.

In addition, some critics recognized that projects assisting the formation of new enterprises should offer advisory services. Assistance in working out formal project plans was most likely to be of use in these cases. There is evidence that when those who are starting firms are required to go through careful planning exercises, the results are quite beneficial. In those cases in which the firms are larger than microenterprises, introductory business courses are also likely to be helpful. Those with most experience in the development of entrepreneurial training programs went even further, arguing that the effectiveness of these programs has been demonstrated even for entrepreneurs in the informal sector.

Concerns with general social and political questions, particularly the issue of equity, were introduced often in the discussion on the determinants of project success. They were a part of the discussion of cost-effective credit programs. The paper by Kilby demonstrated some of their relevance within a larger set of factors that influence the relationship between credit and economic change. He noted that the ability of individual entrepreneurs, the state of the external economic environment, and many government policy decisions could be vital in determining how adequate a response a small-scale enterprise owner could make to credit or technical assistance policies.

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Chronic and high levels of inflation, for example, made even the best-designed credit program unlikely to generate sufficient benefits at an acceptable cost. Rates of 40 to 100 percent need to be charged in these cases.

The absence of appropriate social conditions similarly made the effectiveness of solidarity groups doubtful. In those cases in which solidarity associations were effective, there was usually a supportive government and a pre-existing market for the products produced by group members. It also made a difference if these beneficiaries already knew each other and had experience in the same or similiar lines of business. Evidence from the studies of Goldmark et al. of the Central Java Provincial Credit Program (BKK) in Indonesia[3] and by ACCION International/AITEC of the Dominican Development Foundation (DDF) in the Dominican Republic[4] suggest how rare these supportive circumstances are. Groups can affect costs dramatically, but their capacity to do so rests on circumstances that are rare and difficult to create. Another environmental factor affecting the relationship of credit and project success is the degree to which basic infrastructure (especially roads) has been developed. Once again the issue of public policy was raised; for example, changes in rules relating to import requirements could almost overshadow small-scale enterprise projects in terms of impacts.

### 3.2 Additional Factors in Enterprise Development: Entrepreneurship, Institutional Development, and Public Policy

During the small group and plenary discussions, several other factors were suggested as being antecedents to project success. Among them were entrepreneurship, institutional development (seen by some as related to, but still larger than, what had been suggested in the discussion of solidarity associations), and public policy. A variety of discussions were held during the course of the workshop on public policy questions, which focused in part on the comparative significance of policy changes and project efforts for small-scale enterprise development. The main discussions of public policy, however, came during the analysis of causal factors. During this discussion, attention was direct-

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[3]Susan Goldmark et al., Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program (Washington, D.C.: U.S. Agency for International Development, May 1983).

[4]Jeffery Ashe, Assisting the Survival Economy: The Microenterprise and Solidarity Group Projects of the Dominican Development Foundation (Washington, D.C.: U.S. Agency for International Development, March 1983).

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ed toward the means for making policy changes and project inputs complementary parts of enterprise development efforts.

A number of the participants stressed personal attributes as a means for explaining the variation in entrepreneurial energy and business success. Some participants with recent experience in using applied behavioral science techniques in small-scale enterprise development saw motivational factors (particularly the need for achievement) as being critically important. In combination with a number of other personality characteristics, the need for achievement explains why people take risks in starting firms and why some succeed more than others. There is evidence that training programs used to increase the level of this need among owners and potential owners are quite cost-effective and produce a better return on project investment than other technical assistance or credit programs. Some participants thought that this training would be of particular use to the poorest of micro-sector entrepreneurs, especially when it is combined with efforts to develop solidarity groups. Together, the training and group dynamics could create the self-confidence and sense of protection that make an important difference to inexperienced and exposed entrepreneurs. Others argued more strongly for the introduction of behavioral science factors in project selection processes. When credit and technical assistance need to be rationed, it makes sense to use what we know about the measurable signs of perseverance, risk taking, and creativity in people. Cost-effectiveness may be enhanced dramatically if resources go to those with the greatest self-motivation.

Other participants stressed the central role of institution building and development in explaining the differing successes of enterprises and small-scale enterprise projects. We fail, for instance, to recognize the potential for associations of small entrepreneurs to assist with management and mediation. Many who had worked longest with enterprise development projects in Africa believe that the real need was for some means for assigning value to the development of institutions supportive of small-scale enterprise goals. The amount of institutional "value added" is critical for predicting the sustainability of businesses and organizations that support them.

Beneficiary associations, for instance, are often the only means for ensuring that poor and especially female entrepreneurs can be reached by credit programs. A greater willingness by development agencies to recognize the up-front costs associated with institutional development is needed. Workshop participants with the most experience in the establishment of beneficiary (solidarity) associations stressed these cost factors. Too often the development of these groups has been treated as a secondary facet of project activity, and the record of failure in the creation of these bodies illustrates how costly such supposedly affordable efforts are.

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Others at the workshop took particular note of the relationship of institutional and policy issues. How might governments be encouraged to provide the type of leadership and organizational support that facilitate small-scale enterprise development? Alternatively, how can projects be defined and managed to strengthen relationships with government so that financial and other forms of assistance might be provided? When can government agencies be allies with small business in the competition with more powerful interest groups? Some participants argued that anything that keeps projects free of government contact and influence is more likely to enhance project goals. Most believe that the opposite is true. Evidence was presented to suggest the benefits that could be gained from the creation of advisory and policy groups to develop support among influential individuals and groups and to make projects more responsive to the needs of clients. Others saw an even greater return from effective beneficiary associations. As they grow in number and size and gain the capability of generating information in their sector, they could have a major influence on policy questions and cause governments to take more interest in this sector.

## 4. ENTERPRISE PROJECTS AND COMPARATIVE ADVANTAGES OF PVOs

Participants generated strong opinions on the central questions of the workshop: What special contributions might PVOs make to small-scale enterprise development? When and where are they effective, and are there circumstances in which voluntary sector organizations might have an advantage over other development institutions in the pursuit of these goals?

Participants were aware that there is substantial variation among PVOs in terms of their strategic and tactical approaches to development projects. Some wondered whether these organizations are similar enough so that a discussion of their comparative advantage as donor institutions would make sense. These concerns conditioned the discussion and provided a useful reminder of the complexity of the tasks of assessment. However, for most of the participants, these arguments were overdrawn. Much information has already been learned from existing analyses of PVO enterprise projects. The evaluations completed for the workshop, as well as the comparative analyses of the results of these evaluations, indicate that important policy lessons can be drawn from this research. More is possible and needed, given the growing interest of all donor agencies in income-generating projects.

Many of the attributes most typical of PVOs were then discussed in the small groups and plenary sessions. These included limits on available resources and size of field staff and the substantial decentralization commonly permitted in the operation of PVO projects. PVOs also tend to concentrate their attention

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on a relatively few sites and nations and work in certain regions and communities over extended periods of time. This provides them with considerable experience in specific areas of activity. They also are likely to have highly motivated staff members who are willing to work with the poor and to accept relatively low salaries.

The workshop analyses by Kilby and D'Zmura suggest meaningful advantages for PVOs and may explain their especially favorable performance with informal sector enterprises. One of the small groups in the workshop, composed of PVO representatives, AID staff, and evaluation specialists, produced an overall list of specific comparative advantages of PVOs and ranked these as follows:

-- Flexibility

-- Capacity to induce trust among beneficiaries in target communities (PVOs are seen as more neutral than governments and more concerned with development in the community.)

-- Capacity to work at community levels and to generate local collaboration

-- Ability to mobilize human resources and to encourage participation by beneficiaries in projects

-- Ability to serve as a bridge between beneficiaries and their community on the one hand and government on the other

-- Willingness and capability to specialize in areas of particular competence rather than trying to do everything a multipurpose development agency does (PVOs were seen as likely to become repositories of knowledge and experience in particular project activities.)

-- Ability to keep costs down, particularly because of lowered staff costs

-- Tendency to keep equity concerns more central in development efforts and more likely to be motivated by conscience than other development agencies

-- Willingness to take risks and to start new, experimental projects

-- Less subject to political controls and intervention than projects of public development institutions

In plenary discussions of comparative advantages, related and summary observations were offered. PVO participants referred

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to the importance of viewing these organizations as potential learning groups. Many PVOs working with small-scale enterprises, for instance, had started over a decade ago with little knowledge of how small business could be assisted. They were risk takers, and most made numerous errors. However, they learned from these actions and eventually adapted. Participants offered examples of basic changes in PVO policy and management styles directly linked to lessons learned from failures. Current successes, as documented in the evaluations done for FVA/PVC, suggest that these successes are associated with these adaptations.

This experimental process was seen as leading to developmental efforts that place a high premium on combining effectiveness and efficiency in project implementation. Projects must actually deliver services to the poor and thus be effective in reaching their targets. They must also be efficient, because projects that do not minimize costs of delivery and of derived benefits are not likely to survive. Such a composite effort takes longer and requires a different means for calculating costs. As a consequence, projects are more likely to fit the environment in which they are placed and to be both sustainable and equitable, because they become integral parts of the recipient society. Political involvement is sometimes needed to accomplish these ends. Successful PVO projects often featured efforts to provide umbrella networks of local and even international associations to carry out brokerage and mediating activities on behalf of indigenous organizations and beneficiaries.

On the basis of perspectives such as these, the comparative advantages of PVOs are related to their relative ability to perform what are commonly referred to as "entrepreneurial functions." The experience of PVOs that have the most extensive background in small-scale enterprise development, such as ACCION International/AITEC, Partnership for Productivity (PfP), and Technoserve, are examples. Representatives from these organizations provided evidence of how their activities have changed to become multisectoral and multilevel. Political and social processes are increasingly a part of their strategic and tactical analyses. Yet, their own observations and the evidence presented in the workshop suggest that these changes have reduced costs and increased the spread of benefits. In short, these representatives believe that their organizations have learned a good deal about developing sustainable projects through a process of experimentation and risk taking. They believe that such experimental and innovative approaches to projects are now more common within PVOs. This explains the willingness of many PVOs to commit themselves to approaches that emphasize effectiveness with the poor, even if short-term results seem to be less impressive from the point of view of conventional evaluation models. What they stressed was an assumption that PVOs have the capacity to make the difficult link between effectiveness and efficiency in small-scale enterprise (and other) development projects. If other

research proves this to be true, they will have much to teach about small-scale enterprise development.

Some participants expressed doubts about these accomplishments and the claim for PVO comparative advantage. A number of participants felt that most PVO field staffs are insufficiently trained to handle many of the technical problems associated with small-scale enterprise development, even if they are highly motivated to deal with these difficulties. Several of the participants expressed a concern that PVO operations are often too small in size to have more than a limited impact on the local economy and public policy. The issue of clarity and "hard-headedness" was raised as well. PVOs are sometimes criticized for development activities that fail to stress cost factors sufficiently and that rely heavily on promises and appreciative statements by beneficiaries as the basis for assessment. It is appropriate to argue for the inclusion of personal, social, and political gains in the calculation of benefits and in the determination of factors that are likely to bring change. However, participants in some small group discussions felt that in many PVO projects, such outcomes are substituted for the hard calculation of costs and for the creation of realistic operational standards.

The predominant view held by workshop participants was that many of these criticisms are applicable to projects of all donors and were more typical of PVOs in the past than they are at present. Certainly, the evidence presented in papers and through oral presentations at these meetings suggests that voluntary agencies can be extremely effective in areas of activity in which broad expertise is required. Regardless, the major conclusions on the relevance of PVOs and their cost-effectiveness would come with additional work based on the standards and guidelines produced during the workshop and on the evaluation work now being done by AID and the development community.

## 5. FUTURE PROSPECTS AND RECOMMENDATIONS

The PVO workshop served to identify common themes in past and current small-scale enterprise projects of PVOs, to document the innovation and learning that has occurred, as well as to show the difficulties and failures. The apparent successes of many current PVO small-scale enterprise projects serve to illustrate the importance of learning through doing and of stepping back to assess development activity from a wider perspective.

The discussion also highlighted dilemmas that donors face as they consider how to assist small-scale enterprise development. Granting bodies realize that these businesses are needed and do exist in remote and poor areas, that they tend to promote employment, and that they use scarce capital more efficiently than

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larger businesses. The question is how can they best be reached? Results from this workshop indicate that PVOs have significant advantages in this effort, but perhaps they need to find better means for coordinating and up-scaling their activities to reach small-scale enterprises with the most effective program. Information on successful projects should be disseminated widely within PVOs so that cost-effectiveness might be improved and comparative findings generated. Encouragement should also be offered for PVO innovations in the area of institutional development. Of particular interest are those networking activities designed to support projects that encompass large numbers of entrepreneurs and several levels of economic and social activities.

Specific recommendations from the workshop include the following:

1. Efforts should be made to utilize the approaches to evaluation presented at the workshop to assess the impact of additional PVO small-scale enterprise projects. The goal would be to build a stronger body of case material on private sector projects to contribute more fully to one of the workshop's central goals: the determination of the types of PVO small-scale enterprise projects that are most effective. A related, and equally important, goal would be to refine cost-effective methodologies for evaluating PVO small-scale enterprise projects.

To accomplish these goals, AID could provide resources for a number of complementary activities. It would be useful to evaluate additional PVO small-scale enterprise projects by using a multidisciplinary methodology that draws on benefits analysis and broader systems concerns. It might also be useful to conduct follow-up evaluations on those projects that were reviewed for the workshop. Some projects were only 3 or 4 years old when they were evaluated, and data on the later progress of these efforts would be useful as a means for assessing the conclusions and methodologies from the earlier assessments. Savings would also be inherent in the ability of evaluators to draw on the data that are already available from these projects. These evaluations might be published as a series of case studies by AID or other organizations. These would supplement the workshop materials that FVA/PVC has sent to interested donors and will continue to send on request.

A follow-up workshop should be organized to review these works and to refine further the evaluation methodology. This evaluation material could be arranged in a systematic fashion and could serve as a guideline for AID in the assessment of future small-scale enterprise funding requests. It also could be published and disseminated, perhaps as a package with the results from the AID PISCES (Program for Investment in the Small Capital Enterprise Sector) project, which aims at the production of summary materials that generally are similar to these.

2. These efforts could be enhanced by instituting a working group on the design, implementation, and evaluation of small-scale enterprise projects. It should include representatives from several PVOs working in the area of small-scale enterprise development and others active in the development potential of PVOs. It would be managed largely by PVOs themselves and would draw on resources generated within that commmunity. The major purpose of the working group would be to review current knowledge on the comparative impact of PVO small-scale enterprise projects and to generate discussion within the development community on the means for generating more theoretical and applied knowledge on the subject.

Much of the working group's activity would involve the circulation of materials already developed by individual PVOs, particularly as they relate to questions of design, management, and evaluation. These materials could be supplemented as opportunities arise, for example, with the completion of additional evaluations of AID-sponsored PVO projects.

An early goal is likely to be the development of a handbook on small-scale enterprise project design, implementation, and evaluation that would provide guidance to those PVOs developing new income-generating programs. This should increase the dialogue within the voluntary sector on development goals and procedures.

3. Longer term projects could include efforts to work with other bureaus and offices of AID, as well as the World Bank and private businesses concerned with small-scale enterprise development. Many of these organizations are interested in the development of the poorest economic sectors of society but have difficulty in reaching this target population. They also find it inconvenient to deal with smaller PVOs, even though many of them are effective in reaching the poor.

Efforts to define cooperative strategies might provide a means for coordinating PVO activities in specific nations and regions and allow for the packaging of grants and loans in ways appropriate for larger donors. This should also make it possible for PVOs to relate their efforts more closely to the national development strategies of recipient nations.

PVOs might also become more directly involved with international and domestic chambers of commerce and trade associations. These organizations, although committed to improving opportunities for member businesses, are not well prepared to take on development tasks. However, they could be effective allies for PVOs in applying a broader strategy of small-scale enterprise development. They could also sponsor efforts to disseminate small-scale enterprise project methodologies developed in PVO projects within recipient nations. Chambers of com-

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merce might sponsor training programs for bankers and extension agents in small-scale enterprise promotion.

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APPENDIX A

SMALL-SCALE ENTERPRISE DEVELOPMENT WORKSHOP
LIST OF PARTICIPANTS

| Participant | Organization Represented |
|---|---|
| **PVO Representatives** | |
| 1. Jeffery Ashe | ACCION International/AITEC |
| 2. Robert Hancock | Institute for International Development |
| 3. David Befus | Institute for International Development |
| 4. Ronald Howard | Opportunities Industrialization Centers, International |
| 5. Ralph Perkins | Opportunities Industrialization Centers, International |
| 6. Andrew Oerke | Partnership for Productivity |
| 7. George Butler | Partnership for Productivity |
| 8. Edward Bullard | Technoserve |
| 9. Thomas Franklin | Private Agencies Collaborating Together |
| 10. Larry Campbell | Helen Keller International |
| 11. Suzanne Kindervatter | Overseas Education Fund |
| 12. Shirley Buzzard | Foster Parents Plan |
| 13. Alex Costas | Salvation Army World Service Office |
| 14. Avinash Deolalikar | Volunteers in Technical Assistance |
| 15. Lewis Townsend | Pan American Development Foundation |
| 16. Pablo Stone (Observer) | Pan American Development Foundation |
| 17. Lawrence Correia (Observer) | Pan American Development Foundation |
| 18. Fernando Cruz-Villalba (Observer) | Pan American Development Foundation |
| **Resource People/Donor Representatives** | |
| 1. Robert Hunt | Illinois State University |
| 2. Peter Kilby | Wesleyan University |
| 3. Judith Tendler | Tendler Associates |
| 4. Susan Goldmark | Development Alternatives |



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| | Participant | Organization Represented |
|---|---|---|
| 5. | Peter Fraser | Development Associates |
| 6. | Robert Nelson | Illinois State University |
| 7. | Carl Liedholm | Michigan State University |
| 8. | Barbara Aycock | Peace Corps |
| 9. | Dennis Anderson | IBRD (World Bank) |
| 10. | Price Gittinger (Wed. only) | IBRD (World Bank) |
| 11. | J.D. von Pischke (Wed. only) | IBRD (World Bank) |
| 12. | Rodrigo Tamayo | Inter-American Development Bank |
| 13. | Anne Ttere | Inter-American Development Bank |
| 14. | Bruce Mazzie | Management Systems International |
| 15. | Fred O'Regan, Doug Hellinger[a] | Development GAP |
| 16. | Michael Tiller, Marshall Bear[a] | Appropriate Technology |
| 17. | Cheril Jones (Observer) | Creative Associates |
| 18. | Carolyn Rose Avila (Observer) | Creative Associates |
| 19. | Maryanne Dulansey (Observer) | Consultant |

AID Mission Representative

| | | |
|---|---|---|
| 1. | John Pielemeier, Department Director, Liberia | USAID/Monrovia |

| AID/Washington Representatives | | AID Bureau[b] |
|---|---|---|
| 1. | Julia Bloch[c] | FVA |
| 2. | Thomas McKay[c] | FVA/PVC |
| 3. | Austin Heyman[d] | FVA/PVC |
| 4. | Ross Bigelow[c] | FVA/PVC |
| 5. | Steve Bergen[d] | FVA/PVC |
| 6. | Judith Gilmore[c] | FVA/PPE |
| 7. | Michael Farbman[d] | ST/MD/ESE |
| 8. | Jennefer Sebstad[d] | ST/MD/ESE |
| 9. | Robert Young | ST/MD/ESE |
| 10. | Christine Adamczyk[d] | PPC/E |
| 11. | Frances Johnson | AFR/DP(PRE) |
| 12. | Hank Smith | AFR/DP |
| 13. | Bryant George | ASIA |
| 14. | Bill Miner, Bernie Salvo[a] | NE/TECH |
| 15. | Cressida McKean[d] | PPC/WID |
| 16. | Thomas Luche[d] | FVA/PVC |
| 17. | Debbie Mace[d] | FVA/PVC |
| 18. | Ronnye McIntosh | FVA/PVC |
| 19. | Paul Bisek[d] | FVA/PVC |

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| Participant | Organization Represented |
|---|---|
| 20. Carla Maged[d] | FVA/PVC |
| 21. Carole Millikan[d] | FVA/PVC |
| 22. Lou Faoro | ST/MD |
| Other Observers | |
| 1. Sherry Grossman | FVA/ACVFA |
| 2. John Halpern | Intern (Philippines) |
| 3. Bert Champman | Intern (FVA/PVC) |
| 4. Tim Schierbeek | Intern (FVA/PVC) |
| 5. Lori Forman | AA/FVA |

[a]Invitee and alternate.

[b]See Glossary of Abbreviations for definitions.

[c]AID/Washington Small Group Facilitator.

[d]AID/Washington Presenter.

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APPENDIX B

AGENDA
SMALL-SCALE ENTERPRISE DEVELOPMENT WORKSHOP
October 31 to November 1, 1983

American Institute of Architects
18th and New York Avenue
Washington, D.C.

| Time | Monday, October 31 |
|---|---|
| 8:30 | Registration |
| 9:00 | Welcome--Julia Chang Block, Assistant Administrator, Bureau for Food for Peace and Voluntary Assistance (A/FVA) |
| 9:15 | Opening--Thomas McKay, Director, Bureau for Food for Peace and Voluntary Assistance, Office of Private and Voluntary Cooperation (FVA/PVC) |
| 9:30 | Presentations: What Have We Learned About Small-Scale Enterprise Development?<br>a. Peter Kilby (30 min)<br>b. Robert Hunt (30 min) |
| 10:30 | Housekeeping--Ross E. Bigelow, FVA/PVC |
| 10:35 | Coffee |
| 10:50 | Small Group Discussions (Session I)<br>Topic: What Are the Benefits of Small-Scale Enterprise Development?<br>1. Economic Benefits (Employment, Income, Alternative Credit Sources, Linkages, Productivity)<br>Group A<br>Group B<br>2. Social/Political Benefits (Skills Training/ Extension, Motivation, Institution Building, Policy)<br>Group C<br>Group D |
| 12:30 | Lunch |
| 1:30 | Plenary Reports and Discussion (Session I)<br>Chairperson, Judith Gilmore, FVA/PPE<br>Group A--Rapporteur<br>Group B--Rapporteur<br>Group C--Rapporteur<br>Group D--Rapporteur |

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| Time | |
|---|---|
| 2:15 | Plenary Discussion: What Works and What Are the Costs?<br>Chairperson, Robert Hunt<br>Panel of Evaluators of Small Enterprise Projects |
| 3:00 | Break |
| 3:15 | Small Group Discussions (Session II) |
| 5:00 | Close |

Tuesday, November 1st

| | |
|---|---|
| 9:00 | Housekeeping |
| 9:05 | Plenary Reports and Discussion (Session II) |
| 10:00 | Plenary Discussion: What Is the Role of PVOs in Small-Scale Enterprise Development?<br>Chairperson, Andrew Oerke, President, Partnership for Productivity<br>Panel of PVO Representatives |
| 10:45 | Break |
| 11:00 | Small Group Discussions (Session III) |
| 12:30 | Plenary Reports and Discussion (Session III) |
| 1:00 | Lunch |
| 2:00 | Plenary Discussion: Where Do We Go From Here?<br>Recommendations for Future Action<br>Chairperson, Thomas McKay, Director, FVA/PVC |
| 2:15 | Small Group Discussions |
| 3:45 | Break |
| 4:00 | Plenary Reports and Discussion |
| 4:30 | Closing Remarks--Thomas McKay |

Wednesday, November 2

| | |
|---|---|
| Morning | Ad hoc sessions as desired by participants |

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## APPENDIX C

## FEEDBACK FROM SMALL GROUP DISCUSSIONS ON THE SMALL-SCALE ENTERPRISE DEVELOPMENT WORKSHOP

Four small groups (A,B,C,D) met during the workshop to address the following questions about small-scale enterprise development:

Session I: What are the benefits of small-scale enterprise development?

Session II: What works and what are the costs?

Session III: What is the role of PVOs?

Session IV: Where do we go from here?

The answers to these questions are neither definitive nor conclusive. Rather, they suggest the thoughts of participants at the workshop and are presented for consideration by the reader. This is a composite summary of the feedback on the four sets of questions.

### 1. SESSION I: WHAT ARE THE BENEFITS OF SMALL-SCALE ENTERPRISE DEVELOPMENT?

#### 1.1 What Are the Most Important Benefits?

1. Income/employment generation (growth with equity)
2. Policy-level change (e.g., import substitution, foreign exchange savings, export promotion, bias toward manufacturing firms)
3. Increased production
4. Self-perception of the individual/group awareness
5. Impact on local organizations and governments
6. Increased household welfare/choice of consumer
7. Self-reliance of entrepreneur
8. Equity
9. Empowerment

## 1.2 Main Factors Contributing to These Benefits

1. Policy change
2. Entrepreneurship
3. Institutions
4. Participation
5. Credit
6. Management expertise
7. Technology transfer
8. Scale of activity
9. Capacity of organizations to learn
10. Efficiency of projects in reaching the poor
11. Benefits exceed costs, per project and per beneficiary

## 1.3 Pattern of Benefits

One group suggested a pattern of benefits (Table C-1) ranging from the least tangible (upper left-hand corner) to the most concrete outputs (lower right-hand corner).

# 2. SESSION II: WHAT WORKS AND WHAT ARE THE COSTS?

## 2.1 What Works?

1. In the early stages, PVOs must develop trust with entrepreneurs.
2. The incentive for repayment of loans by borrowers is the availability of more credit.
3. Borrowers must have a stake in or make a contribution to the enterprise.
4. Project should fill gaps as needed.
5. Training is the key. It should be appropriate, practical, focused on the individual, staged over a period of time, and foster networking.
6. Impact depends on sector and the political situation.
7. PVOs can bring in knowledge and resources and can work with local leadership.
8. There is no single or simple solution.
9. Simple business planning works.

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Table C-1. Pattern of Benefits of Small-Scale Enterprise Development

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reliability | Hope | Solidarity Groups | Human Capacity Development | Participation in Government | Empowerment | Social Political/ Economic | Community | Social Cohesion |
| | Self-Esteem | Mechanisms | | | Linkages | Stability | Quality of Life | Capacity to Influence |
| | Human Resources | Programs | Institutional Development | Mobilization | Cooperation | Control of Economic Family Life | More & Better Goods & Services | Policy |
| | | | Community Development | Participation in Economy | Viability | | | Wider Knowledge |
| | | | | | | New Jobs | Increased Family | Increased Choices |
| | | | | Social Activism | Group Activities | New Credit | Incomes | Better Education |
| | | | | Increased Skills | | | | Health Facilities |
| | | | | | | | | Roads |





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10. Within credit institutions there is a need for the capacity to do economic analysis.
11. Management capabilities should be transferred to local organizations.

## 2.2 How Can Beneficiaries Be Linked to the Broader Economy?

1. Working with individual entrepreneurs may be a preamble to setting up a local institution or beneficiary group.
2. Enterprises may flourish when the economy is disrupted and the need for change is evident.
3. Beneficiaries groups may work where there is social cohesion, costs can be reduced, there is a mechanism to overcome risk, and prospective borrowers can be screened. Established groups seem to have the "social glue" and can best develop the links.

## 2.3 What Role Can National Economic Policy Play in Project Design and Implementation?

1. National plans in credit, training, technical assistance, technology, and other components of entrepreneurial development should influence good project design.
2. Policy change may not be an essential goal for a pilot project.
3. Entrepreneurship and motivation may overcome policy obstacles. Training in these areas may help.
4. Some countries have not provided adequate policy guidance for entrepreneurship development.
5. Entrepreneurs may have inadequate knowledge of the policies or regulations affecting them (e.g., credit, marketing).
6. Policymakers often respond to specific or local demands for change.
7. Policy change can be a negative factor for entrepreneurs.

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## 3. SESSION III: WHAT IS THE ROLE (COMPARATIVE ADVANTAGE) OF PVOS?

### 3.1 What Are the Advantages of PVOs?

1. Able to respond flexibly to local needs.
2. Perceived by community as neutral and legitimate.
3. Are operational at the community level and may have leverage with umbrella groups.
4. Can mobilize human and material resources.
5. Bridge private sector and government.
6. Are freer of some political constraints.
7. Have potentially low per-project costs, compared with the government.
8. Are socially conscious and concerned with equity.
9. Are able to bear risks better than banks.
10. Have specialized, and are experienced in, small-scale enterprise (some PVOs).
11. Share, collaborate, and network with other PVOs.
12. Reach target populations not touched by other delivery systems.

### 3.2 What Are the Disadvantages of PVOs?

1. Have small staff and resources.
2. May have limitations in technical competence.
3. Work more at the micro- rather than the policy level.
4. May not be business minded or "hardnosed."
5. Focus on needs of poor rather than profitability in a project.
6. Have "do-gooder" image.
7. Have potentially high per-beneficiary costs.
8. May find it difficult to disengage from project to encourage self-sufficiency (although there are many exceptions).
9. May have trouble satisfying donors.
10. Often lack hard data for project monitoring.

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## 4. SESSION IV: WHERE DO WE GO FROM HERE? RECOMMENDATIONS?

### 4.1 Conclusions

1. The major interest of PVOs and donors in small-scale enterprise development should be economic impact among the poor.
2. All things being equal, consumer benefits should be emphasized over project benefits.
3. Goods and services that are needed should be the focus of small-scale enterprise projects.
4. Support groups for entrepreneurs are needed.
5. Existing enterprises should be given priority assistance over new enterprises.
6. Both economic and social criteria should be used as bases for evaluation of small-scale enterprise projects (including factors such as value added, export promotion).
7. Managerial assistance is more needed than the transfer of technology.
8. Project maturity should be an evaluation selection criterion.
9. Empowerment is a key to successful projects.
10. Self-sufficiency may not be the goal of every project. Project subsidization may be justified for purposes of demonstration, for example.
11. Small-scale enterprise project evaluations should be done by independent professionals.
12. The demand for entrepreneurial development far exceeds support from PVOs and other donors.

### 4.2 Recommendations

1. Produce a summary workshop report, get outside feedback, and distribute the report.
2. Evaluate small-scale enterprise projects before and after interventions.
3. Do economic analyses using the Kilby methodology, and incorporate social and political criteria.
4. Support self-generating projects and help to local entrepreneurs.

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APPENDIX D

SUMMARIES OF AD HOC DISCUSSION GROUPS

## 1. BENEFIT MEASUREMENT

### 1.1 Participants

Peter Kilby, Wesleyan University (Chairperson)
Dennis Anderson, IBRD (World Bank)
Jeffrey Ashe, ACCION International/AITEC
Paul Bisek, FVA/PVC
Thomas Franklin, PACT
Judith Gilmore, FVA/PPE (Reporter)
Price Gittinger, IBRD (World Bank)
Susan Goldmark, DAI
Carl Liedholm, Michigan State University
Carla Maged, FVA/PVC
J. D. von Pischke, IBRD (World Bank)
Judith Tendler, (Independent Consultant)

### 1.2 Discussion

A substantial portion of the early discussion of this group focused on the methodology used by Peter Kilby in his paper, Searching for Benefits, and its relationship to classical benefit-cost analysis. (See Appendix E for a summary of this paper.)

Peter Kilby set forth those assumptions of his benefit calculation methodology that are the most arbitrary in the sense that the profession has little hard data on their empirical accuracy. These assumptions are as follows:

1. Causality. It is assumed that observed increases in sales of assisted firms (to which all benefits are somehow linked) occur as a result of the provision of loan financing. In those cases in which control groups are available (a minority of cases), it is the differential sales increase or decrease that is attributed to the loan.

2. Opportunity cost of labor. It is assumed that expansion of the informal sector does not entail the loss of output elsewhere. This happens either through the existence of unutilized labor time (undesired leisure) for those currently working or through promotions, in which

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vacated jobs are taken over by those previously engaged in less productive activities, and so on down the ladder until the people at the bottom are vacating states of unemployment.

3. Excess capacity. It is assumed that a significant number of producers in the economy possess a degree of excess capacity so that project-generated demand for their output (which either supplies intermediate inputs to the client firms--backward linkage--or caters to the additonal consumer spending derivative from the new wage and profit income--income multiplier) results in additional output rather than a switch in output from another use.

4. Other assumptions. The assumptions listed above apply only to the maximum case estimate. In cases in which there is direct or indirect evidence that that they do not apply, lower figures that seem reasonable in light of available evidence are applied in the most likely case estimates.

With respect to the causality assumption, various "external" causes were discussed. Mr. Kilby noted that projects had shown net benefits during both boom times and recessions. Judith Tendler felt that the state of the economy frequently had a larger impact than the loan, particularly when the economy was bad. Carl Liedholm noted that to the extent that the income elasticity of demand for microenterprise products was negative, demand would increase in times of recession. Susan Goldmark stated that, in the case of Upper Volta, new roads could have produced most of the benefits that were attributed to the loans. Mr. Kilby responded that external conditions were as likely to decrease benefits as to increase them--if bad times "subsidized" microenterprises, good times "taxed" their benefits for exactly the same reasons--and that new roads brought new competition from producers in the larger cities just as much as they opened up new local markets. He acknowledged that external factors are indeed very important, that they should be described with as much detail as possible, and that a judgment on their impact should be reflected in the most likely benefit estimates.

Regarding the opportunity cost of labor, Price Gittinger noted that in most benefit-cost analyses the assumption of whether it be nil or insignificant was usually quite arbitrary. For the informal sector, he felt that the assumption of zero opportunity costs was not unreasonable, except at times of peak labor demand in the farming cycle; because most small-scale enterprise activities are reduced during these periods, the zero assumption is acceptable. Judith Tendler noted that for UNO's entrepreneurs, the assumption clearly did not hold because they had all left

decent jobs to establish their firms. Mr. Kilby acknowledged that a better assumption was that most entrepreneurs had significant alternative earning opportunities. Carl Liedholm reported that data from Sierra Leone indicate that even the nonentrepreneurs had a year-round opportunity cost and that it was well measured by the wages they received. He suggested that this wage rate be taken as the opportunity cost for at least the minimum benefit estimate. Mr. Kilby agreed with this.

With regard to the existence of excess capacity, all participants agreed that although the assumption was not unreasonable, there is little knowledge about it. Mr. Liedholm reported that in both Jamaica and Sierra Leone virtually all of the small-scale enterprises that were surveyed stated that they could expand their output if the demand were there. Foreign exchange shortages can also work to discourage the large-scale manufacturing sector.

Everyone agreed that the consumer benefit should be only the "welfare triangle," or consumer surplus on the increment in sales. Mr. Kilby used the entire price reduction as a benefit, and because the difference in price on the pre-existing output was an income transfer (the price gain to the consumer offset by a reduction in the profit margin of the entrepreneur), the consumer net benefit was overstated. Mr. Kilby later explained that his measurement was correct in that the reported profit gain was what the entrepreneurs actually received, that is, the net of any lost profit they would have earned if there had been no price reduction. Hence, he noted that price reductions via competition are likely to entail gains in efficiency in both assisted and unassisted enterprises. The estimated consumer benefit is too low in that it omits both the efficiency gain and the welfare triangle for unassisted producers.

The final technical item that was discussed was inflation. This did not include a discussion of the benefits obtained by creditors through the diversion of loan funds to other uses. Mr. Gittinger stated that IBRD had no satisfactory way of treating the issue and that it seemed to be handled satisfactorily in the report. Inflation redistributes income to the borrowers at the expense of the project (whose real finance position is eroded), competitors, and potential borrowers. Mr. Liedholm suggested that benefits from diversion should be assumed to be equal to capital erosion.

Taking another perspective, Ms. Tendler wondered whether benefit-cost evaluation methodology might divert attention from the primary issue of how to make existing financial markets more responsive to the informal sector. She believes that emphasis should be placed instead on identifying cost-effective models for servicing large numbers of borrowers. The consensus of the group

was that both approaches are necessary and that they are complementary, not competitive. It is essential to know how productive is the assistance to the small-scale enterprise sector, as well as how to create self-sustaining financial institutions. We need to do more work in both areas.

## 2. SYSTEMS METHODOLOGY

### 2.1 Participants

Andy Oerke, PfP/I (Chairperson)
Sheri Berenbach, PfP/I
George Butler, PfP/I
Shirley Buzzard, Foster Parents Plan International
Bob Hunt, Illinois State University (Reporter)
Francis Johnson, AFR/DP
Cheryl Lassen, PfP/I
Debbie Kennedy, FVA/PVC
Bruce Mazzie, Management Systems International
Fred O'Regan, Development GAP

### 2.2 Discussion

This working group met at the offices of PfP/I in Washington to consider methodologies for assessing the impacts of small-scale enterprise projects. The primary goal was to begin the process of developing a more comprehensive evaluation framework that would include, but broaden, the dominant approaches to evaluation.

The group set the following agenda: (1) to state general directions for the evaluation of small-scale enterprise projects, particularly for those designed and managed by PVOs; (2) to develop a preliminary set of categories and specific indicators for use in evaluating small-scale enterprise projects; (3) to undertake case studies designed to illustrate the utility of the alternative methodology, particularly as a means for expanding on standard analyses of benefits and costs; and (4) to provide a working paper that would (a) integrate economic and social approaches to small-scale enterprise evaluation for use by development professionals in the design, implementation, and evaluation of enterprise projects and (b) specify for project designers and managers the theory and development of more successful projects and stages through which they tend to evolve.

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Participants hoped that the group could continue to meet to facilitate the completion of the projected activities. Others from the PVO, donor, and academic communities could be invited to participate, as appropriate. The ultimate purpose of the working group, however, would not be to create a permanent association. It would be to produce materials illustrative of a broader evaluation methodology for use by the development community at large--and thus to facilitate development learning.

The working group first summarized its concerns regarding the small-scale enterprise workshop discussions of the substance and methodology of development. Subsequently, specific options for future efforts were listed, along with a set of indicators for a more systemic evaluation of development projects. These conclusions and proposals are reported here.

### 2.2.1 Commentary on the Small-Scale Enterprise Development Workshop

For group members, the concerns for developing additional indicators of small-scale enterprise development were crystallized by the paper prepared for the workshop by Kilby and D'Zmura. The benefits analysis that was offered was of real importance, and PVOs need to accommodate the concerns and the methodology expressed in the paper. This conclusion was reinforced by the breadth of analysis in the paper and the recognition that it encompassed economic and social factors often omitted in standard benefit analyses. Clearly, small-scale projects must maximize the impact per dollar spent and they must lead to more productive firms.

The analysis by Kilby and D'Zmura was also incomplete. This was made clear during the discussions of the analysis in the workshop sessions, in which it was evident that the approach depicted development in a fractionalized way (other methodologies do likewise). In such approaches, outcomes are viewed separately from the processes used to achieve them; tangible and economic benefits are ranked over others, and short-term impacts are highlighted. The sum is an implicit theory of development that reflects value premises and strategic implications that are open to question--but seldom questioned. The theory needs to be questioned, first in terms of its implications for equity, as this is of primary significance to PVOs. The voluntary sector provides over US$1 billion dollars a year for development and taps an American constituency for assistance closely identified with basic needs approaches to the problems of poverty. The analysis needs to be questioned on economic grounds as well. The data provided in the benefit-cost analysis suggest that PVOs can do quite well in minimizing costs and producing benefits, despite

their tendency to mix social, politicial, and economic factors in their development activities. The working group wants to understand the ways in which the methodology of project design and evaluation can be made more holistic and thus responsive to normative concerns and the pursuit of growth with equity.

### 2.2.2 Some Implications and Costs of Benefits Analysis

Those using benefits analysis in workshop discussions tended (as did Kilby and D'Zmura) to evaluate beneficiary participation in terms of short-term, mainly tangible, impacts. There was some concern with the effect of beneficiary groups in reducing project administrative costs, and there was an interest in the potential for these groups to expand the range of creditors reached. However, there was little apparent interest in the value of participation per se. There were no stated procedures for calculating when such involvement might legitimately be viewed as a substitute (even temporarily) for financial considerations.

It was concluded that the method was also relatively insensitive to differences in the contexts in which projects operate. Even when differences were noted, they were not incorporated in the final benefit and cost assessments. For example, high start-up costs might be treated as inescapable in a given project, but concluding discussions of benefits and costs failed to mention these obstacles, and the project's comparative ranking suffered.

Results from one of the projects evaluated for the workshop illustrate this principle. A solidarity association of beneficiaries appeared to contribute greatly to the positive project outcome, as measured by the benefits (confirmed in other social research). However, it was also suggested that it was easier to form the associations in this particular project setting. It was implemented in an urban area with beneficiaries who knew each other and had shared experiences in similar lines of business. This did not reduce the significance of the accomplishments. It only serves as a reminder of the need to account more precisely than do most evaluation methodologies for the costs of building a supportive institutional base for project activities.

The summary question was as follows: If the action of beneficiaries in situations in which they can act collectively reduces costs, what are the implications in terms of cost of ignoring the potential benefits of such action in those cases in which organizing is more difficult?

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Some participants at the workshop suggested that these matters should be dealt with through a process of weighting. Projects begun where poverty was greatest and organizational experience was least would receive more credit per unit of delivered assistance than others. However, there were few comments on how this would be done, except to suggest that values greater than one could be used as possible weights. What is needed is a theoretical framework to give guidance in strategic and value terms; this framework should be systemic in scope. Small-scale enterprise projects should be evaluated on their impact over an extended period of time on individual entrepreneurs, their firms, and the marketplace to which they relate. Assessments should also deal with impacts on the political system in which the entrepreneurs operate, and the broader community in which they live. Evaluations like this should promote general knowledge about development.

This discussion highlighted another point. Most standard evaluation methodology suggests that alternative evaluation techniques are somewhat "soft," because they treat quantitative and conventional cost factors less rigorously. The fact is that costs are minimized only in projects that bring about sustainable development. A successful system methodology would be deeply concerned with costs but would evaluate them in light of a much broader range of choices and a more extended perspective on the processes of change. For economic as well as social reasons, a more systemic evaluation methodology is justifiable.

### 2.2.3 Proposal for Developing and Testing a Systems Methodology

The working group outlined several preliminary tasks. First would be the construction of a matrix to suggest both the dynamics and the ends of development. The first dimension would draw largely on the range of outcomes suggested above (individual, firm, market, political, system, and community), with the second dimension consisting of differences in project inputs (credit, training, institution building). These efforts would be followed by the creation of a testable set of indicators to illustrate the various cells in the matrix. Among the indicators would be those proposed by Kilby and D'Zmura, supplemented by those reflective of social and political changes.

Subsequent steps would depend on the interests of participating PVOs and others. It would be possible to develop a testable guide to evaluation, or a more general handbook on starting projects, and possibilities for implementing it would include the reconstruction of data from several completed project evaluations. These could include those of the DDF (ACCION International/AITEC) in the Dominican Republic, NCCK (Development GAP)

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in Kenya, PfP (Upper Volta), and the Manila Community Services Corporation (Appropriate Technology International). These assessments could be edited to provide a body of case literature organized around the evaluative mode devised in task one.

There could also be an undertaking to collect an extensive sample of cases from a number of PVOs and covering a variety of project types. Considerable reliance would be placed on the original matrix to suggest project types, although other issues would surface--such as the need to look at different types of donor strategies and to deal with projects relating to women. This sample of potential cases could be assessed through a review of available materials. The goal of these activities would be to produce a research agenda for the PVOs and AID. This in turn might lead to the development of a system of data collection geared to providing information compatible with the systems matrix so that a broad-scale assessment of differing efforts could be produced. It could lead also to a set of specific guidelines for project designers and managers. Collectively, these materials might be the basis for future workshops on small-scale enterprise project design, management, and evaluation.

## 3. TRAINING AND MOTIVATION

### 3.1 Participants

Robert Nelson, University of Illinois (Chairperson)
Barbara Aycock, Coordinator, Small Enterprise Development, Peace Corps/Washington, D.C.
Ross E. Bigelow, FVA/PVC (Reporter)

### 3.2 Discussion

This small group discussion focused on the development of the Peace Corps' small-scale enterprise development program and related training issues.

Barbara Aycock said that the Peace Corps recently created a Small Enterprise Development Coordinator position in Washington, D.C. Small-scale enterprise development is important to the Peace Corps. Of the 5,000 volunteers that are abroad, 400 are in business-related assignments, but until now none has been trained in small-scale enterprise development. Most volunteers come from academic backgrounds in economics or business. Few are practically equipped to handle consulting or training functions in the remote areas of the world in which they serve. The exceptions

are older volunteers who come to the Peace Corps with business experience. Therefore, the need for training in small-scale enterprise development is evident.

The Peace Corps had its first training in this area in Ecuador in February 1984. PfP won the bid in a competitive selection process. Volunteers in Ecuador will work directly with entrepreneurs and through various chambers of commerce in the country. The training lasts for 2 weeks and focuses primarily on business skills.

Aycock said that she wanted greater incentive for Peace Corps directors to mount small-scale enterprise development training and to develop programs in this area. Aycock's role is largely central and advisory, although she plans to travel to Ecuador and other countries served by the Peace Corps to assist in small-scale enterprise development activities.

Nelson urged the Peace Corps to have a long-term small-scale enterprise development strategy in each country, which goes beyond placement to institutionalizing enterprise activities. Aycock said that she was in favor of that idea because the Peace Corps' Country Management Plan was unlikely to go that far. Bigelow encouraged Aycock to develop a strategy of this sort in one of the upcoming training sessions, for example, in Ecuador. He also suggested that the Peace Corps develop a long-term strategy that takes cognizance of the USAID Country Development Strategy Statement and the country's own 5-year plan.

Nelson asserted that working directly with individual entrepreneurs is a waste of time. Volunteers could make more progress in small-scale enterprise development through umbrella organizations. He said that the target dates of the Peace Corps need to be higher and that it will take between 20 and 40 years to have an impact. Bigelow mentioned the Vocational Improvement Center program sponsored by the Ford Foundation in the 1970s as an example of a small-scale enterprise development program that had a long-term strategy and tapped the motivation of a wide spectrum of Nigerians to ensure that the project would be institutionalized. Local officials, ministry leaders, training specialists, businesses, teachers, and entrepreneurs all had a significant stake in that project, and that is why it succeeded, Bigelow contended.

Nelson said that he was not a devotee of motivational training per se. Rather he felt that the profit motive provided adequate incentive for most entrepreneurs, and he gave some examples from small business training experience in the United States and overseas.

Nelson told Aycock that entrepreneurial training changes target groups at the following different stages in a project:

1. Training to raise awareness of (a) elementary and secondary school students, for example, at a self-employment discussion for a career day event; (b) polytechnic students; and (c) women's groups (for example, there are about 5,000 such groups in Kenya)

2. Orientation training for those who choose entrepreneurship, say a 1- or 2-day session

3. Implementation training for entrepreneurs who are starting up enterprises, working with small groups or individuals to overcome problems of getting appropriate government certificates to start a business, finding suppliers, identifying markets, and so on

4. Operations training, providing specifically targeted assistance, either on the job or inservice (for example, working with the chambers of commerce)

5. Expansion training, providing guidance for expanding successful enterprises

Nelson emphasized that good curricula were needed at all stages to ensure that the training was useful.

The meeting concluded with all agreeing that training had an important role to play in developing entrepreneurial skills. Nelson and Aycock may continue their discussion about future collaboration.

## APPENDIX E

## SUMMARY OF SEARCHING FOR BENEFITS

by Peter Kilby and David D'Zmura

This study examines five microenterprise lending projects, four of which were designed and implemented by private voluntary organizations (PVOs), to learn what in these assistance programs has worked and what has not. More concretely, we seek to explain the variance in performance among projects in terms of such "causal factors" as economic activities supported, location of project, presence of certain external factors (e.g., low inflation, high rate of gross national product [GNP] growth), type of delivery system, extent of complementary technical assistance, and special uses of PVOs.

The standard of performance from which all conclusions derive is not related to such conventional norms as loan default levels or the economic viability of the project in terms of interest income coverage of administrative costs. Rather, the measuring rod is net economic benefits or additions to national income. This choice of measuring rod permits us to achieve two secondary objectives. First, we can compare the benefit-cost ratios of small-scale enterprise projects with aid programs in other sectors. Second, it provides us with an opportunity to develop a specially tailored approach to small enterprise, which might serve as a standard methodology for evaluating all such projects in the future.

Microenterprise establishments provide part- or full-time employment for a sizable fraction of the nonfarm labor force in most developing countries. These one- to five-person units are ubiquitous, found in town and village, and operate in the areas of services, transportation, manufacture, and distribution. Using simple artisan technology, frequently operating in makeshift quarters with an investment ranging from a few hundred to a few thousand dollars, they provide a wide array of goods and services to the bulk of the nation's households. Because of their large numbers, relatively modest incomes, and lack of access to the normal pathways to scarce developmental resources, producers in this sector are attractive targets for an equity-oriented aid strategy. Because of their comparative ability to work with the poor and the unorganized, PVOs are well-suited to execute such projects.

A central feature of many microenterprises is that they represent but one of several commercial activities being pursued by the family household. The "family firm" might, for instance, be engaged in farm cultivation, trading, and artisan manufac-

turing. Because of the fungibility of capital and labor among the diversified activities of the family firm, the microenterprise survives. At the same time, this fungibility--particularly the diversion of loan finance to nondesignated uses--creates difficulties both for running loan schemes and for evaluating them. The evaluation difficulties stem from a lack of recorded information among client firms and vaguely defined boundaries between family activities, on the one hand, and the severe problems of estimating those benefits arising from nondesignated uses of the funds, on the other.

In broad terms, the method of estimating benefits is as follows. For each of the five country projects--in Upper Volta, Brazil, Honduras, Dominican Republic, Peru--thorough field evaluation reports provide data for a sizable sample of client firms on increases in sales, profits, wages, and employment. Three sets of benefit estimates are constructed. The minimum estimate includes only the increase in value added (wages, profit, interest, rent) in the client firms, with a deduction for the opportunity cost of labor. The maximum estimate assumes lower opportunity costs in terms of foregone production elsewhere and induced production in supply firms and in firms catering to the new income-derivative consumer demand. Equity considerations are dealt with by weighting benefits accruing to the very poor by a factor of 1.5. The most likely estimate is constructed between these two polar extremes by factoring in judgments about probable biases in the data, the effects of external considerations (e.g., the influence of a new road, a balance of payments crisis), and other omitted variables.

One section is devoted to each of the projects (Sections 3 through 7). A description of project design and implementation is followed by a step-by-step construction of the three benefit estimates. Section 8 presents the comparative analysis and the lessons derived. The major findings are as follows:

1. All the projects enjoy an undiscounted benefit-cost percent ratio greater than unity, with four out of five internal rates of return above 100 percent. These rates of return place microenterprise lending schemes among the most successful categories of all types of foreign aid programs.

2. None of these projects is successful as measured in conventional terms of interest income covering administrative cost and capital erosion. Indeed, in only one case (Peru) does interest income fully cover administrative expenses. The lesson to be drawn is that self-sufficiency or project sustainability, although highly desirable, should not be equated with economic success, nor its absence with a failing project.

3. Among the five projects, those with extremely high performance levels obtain the bulk of their benefits from output

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response in the client firms. But for the moderately successful projects, a critical proportion of their benefits comes from unseen external economies--backward linkage, the final demand linkage, and consumer benefits. There is an important lesson for project design with respect to the first and third of these external economies. Although very numerous, retail trade establishments normally create no new backward linkages; ceteris paribus (all else remaining constant), projects that exclude trading firms as clients will have a higher benefit-cost ratio. Consumer benefits resulting from competition-induced price reductions only occur where client firms constitute a significant proportion (say 20 percent) of the suppliers in the market in which they compete; ceteris paribus, projects situated in localized market areas will enjoy a higher benefit-cost ratio.

4. High rates of inflation are powerfully detrimental to project performance. In the great majority of instances where inflation exceeds 40 percent, government or PVOs are reluctant to set loan interest charges equal to the rate of inflation. Negative real interest rates impose a heavy cost in capital erosion and, at the same time, reduce measurable benefits by creating an incentive for the borrower to divert loan proceeds to nonproductive inflation hedges.

5. Small-scale enterprise loans produce benefits in periods of economic contraction and economic expansion, the benefits being larger in expansionary phases.

6. Concerning the loan delivery system, very simple systems are the most cost-effective and, by virtue of greater timeliness in disbursement, yield greater benefits to the borrower. Such simple systems involve relatively few visits, do not require extensive documentation of past business performance, and do not attempt an in-depth evaluation of the proposed use of funds. With respect to loan payback, strict policies of enforcing repayment are essential, including recourse to the law courts. Other incentives for prompt loan repayment include the prospect of repeat loans, loss of national consumer credit standing, and the use of collateral.

7. Despite the intuitive appeal of technical assistance as a means of strengthening the managerial and technical capacity of borrowers, the record in these projects and elsewhere is that such assistance does not reduce production costs or permit more rapid expansion for the vast majority of its recipients. On the other hand, by adding substantially to costs, technical assistance worsens the benefit-cost ratio.

8. While PVOs are not the only agency to design and implement successful microenterprise projects (e.g., FDR Peru, BKK Indonesia), they do possess several special attributes, which

give them a potential comparative advantage in this area: an ability to learn from past mistakes by virtue of continuity in the field, strong motivation to work at the local level with the poor and unorganized, a favorable perception by the client population, freedom from local political pressures, and a strong cost advantage with respect to both expatriate and local personnel.

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APPENDIX F

## SUMMARY OF PRIVATE VOLUNTARY ORGANIZATIONS AND THE PROMOTION OF ENTERPRISE

by Robert W. Hunt

The paper summarized here was written expressly for the small-scale enterprise workshop. Its primary purpose was to describe in detail the lessons learned from recent evaluations of small-scale enterprise projects, particularly those of private voluntary organizations (PVOs). It was also to illustrate the ways in which these lessons were being applied. The review and analysis were presented to allow workshop participants to focus more clearly on issues such as the sources of project success, the comparative advantages of PVOs in promoting small business, and the role donors can play in supporting effective, small-scale enterprise projects.

Interest in the role of PVOs in small-scale enterprise development is stimulated partly by concern for identifying new means for dealing with global poverty. Small-scale enterprises are relatively easy to start and are a means through which even very poor individuals can channel funds and efforts to increase income and security. They are also more likely than larger firms to provide employment for other poor individuals either directly or through indirect impacts on local economies. In this way, they may bring new resources to the poor relatively efficiently, and they may also help to establish a base for subsequent economic expansion.

PVOs may be, for a number of reasons, well positioned to facilitate the development and positive impacts of small-scale enterprise. PVOs tend to operate over extended periods in the same areas and to employ people who are highly motivated for work with the poor and who are willing to accept relatively modest salaries. In addition, PVO project managers usually have freedom to handle activities on-site, in part because of the inclination to advocate projects that respond to local needs. Finally, resources are usually quite limited, and this provides additional encouragement for working with the more deprived, because the interest of established classes in project activities tends to diminish with the level of available resources.

Central questions for development agencies are as follows: Do PVOs and small-scale enterprise projects generally promote growth and equity? Do PVOs have a special capacity for promoting small-scale enterprise projects?

Recent studies designed to answer these questions include evaluations of small-scale enterprise projects conducted by major

international donors. There are also a number of recent evaluations of PVO small-scale enterprise projects conducted by the Agency for International Development, the World Bank, and PVOs themselves.

Results from these studies suggest that small-scale enterprises can be successfully promoted through the use of credit facilities and a variety of technical assistance programs. The latter include extended and short-term training as well as consultancy services. Where these programs have been most successful in promoting new firms, employment, and income, they have been well administered over extended periods of time by well-trained, cost-conscious project personnel. Successful projects have also had available regular information on their impact, sometimes through the efforts of beneficiary associations. Finally, assistance to small- or medium-size manufacturing firms has been found to be particularly related to the generation of new employment and to the linking of beneficiary firms to other sectors of the economy. Tiny firms and trading enterprises of all sizes are less likely to generate employment or economic linkages.

These findings indicate the potential significance of small-scale enterprises for the development of a modern economy. They are also troubling in that they appear to imply relatively little concern for equity. Consequently, governments, and PVOs especially, have begun in recent years to seek means for increasing the potential for small-scale enterprise (income generation) projects to affect a broader range of beneficiaries. Experiments have been made with the grouping of clients, the decentralization of project activities to ease the process of reaching the poor, and the careful tailoring of resource packages and the requirements for assistance to increase the probability that poorer entrepreneurs will benefit.

Much of the debate over current and prospective PVO involvement in small-scale enterprise development and over the potential of small-scale enterprise for poor societies is consequently focused on the issue of cost. What price must be borne to see that projects benefit those most difficult to reach? Because small-scale enterprises are often highly efficient in the use of capital, are there in fact economic as well as political and social benefits for such projects? Still other critics wonder whether any type of PVO small-scale enterprise project is going to matter very much, even if it is efficient, given the limited resources of these donor bodies.

These questions indicate the need for systemwide evaluations of small-scale enterprise development projects. Without evaluations there can be no end to debates over specific outcomes. Is employment production more valuable than the development of new

firms? What are the comparative costs of credit programs or training efforts? When are loans to first-time borrowers sufficiently significant to overcome other cost problems? Some public development agencies, including PVOs, are pressing for the consideration of a greater range of social, economic, and political factors than have typically been identified in enterprise projects. They seek means for assessing these impacts in a manner that ensures their relative equality with the shorter term economic changes normally central to the determination of impacts and the assessment of costs. Relevant inputs and outcomes are the extent of empowerment of beneficiary groups, and the distribution of beneficial social and economic changes throughout targeted communities.

Development projects that do not accommodate or seek to influence systemic factors are less likely to have an effect on poverty. Many economically efficient projects are unsustainable, because they mainly reinforce systems of inequality and offer few incentives to the poor for change. Economic and social factors must be weighed together.

Evaluations of small-scale enterprise projects suggest how these broader social and institutional concerns are affecting particular PVO projects. For instance, two evaluations of the Opportunities Industrialization Centers International (OICI) and its entrepreneurship training programs have highlighted the potential of a comprehensive institution-building effort. OICI spends considerable time and resources for each training project, establishing advisory and policymaking bodies to ensure the availability of expert advice on training and business opportunities.

Other organizations, such as those associated with the Sarvodaya Shramadana in Sri Lanka, the Northeast Union of Assistance to Small Business (UNO) program in Brazil, Partnership for Productivity's (PfP) work in Upper Volta, and the Manila Community Services, Inc., in the Philippines, are involved in activities even more broadly focused than these. Not only are issues of equity central to the conception of benefits, but social and political factors are assessed both as outcomes to be pursued and as causes of project success. Such projects are concerned with networks and finding a range and variety of organizational supports in local, national, and international environments.

It is possible for these "systems" projects to be small and simple. The key is not comprehensiveness but the creation and cataloging of links among social, economic, and political factors associated with change in a given setting. The simpler the better, given inevitable cost constraints. What is crucial is that successful PVOs more often seem to be displaying entrepreneurial characteristics in their design and implementation of

enterprise projects. They are looking relatively less at the firm and more at the relationships that both facilitate its development and channel the resources produced to create significant and sustainable changes that are beneficial to the largest number of people possible.

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## APPENDIX G

## THE SMALL GROUP PROCESS USED AT THE SMALL-SCALE ENTERPRISE DEVELOPMENT WORKSHOP

### 1. OVERVIEW

The Small-Scale Enterprise Development Workshop, held from October 31 to November 2, 1983, was limited to 2½ days to permit participation by top private voluntary organization (PVO) staff and busy resource people. Extensive use was made of small groups to maximize the use of the limited time and allow everyone to be involved. Plenary sessions preceded and followed these groups to introduce topics and consolidate group findings, respectively.

### 2. PROCESS USED IN THE SMALL GROUPS

The small group process was adapted to the needs of this workshop from earlier Bureau for Food for Peace and Voluntary Assistance (FVA) experience. It had been used in the FVA/FFP PL 480 Title I Conference held in January 1983 in Reston, Virginia.

The process was rather structured. Questions were set for each of four small groups made up of 10 to 12 people each. Small group sessions lasted only about 1 to 1½ hours. In the first of four sessions, the groups started by quickly recording answers on cards which were then posted on the wall for all to see. These anwers provided the basis for discussing, sorting, and drawing conclusions. In the other three sessions, flip charts were used by each group recorder to synthesize ideas generated by the group. Both the card and flip chart methods seemed to work adequately. Rapporteurs made short summaries back to plenary groups on the findings of each of the small groups.

Ad hoc sessions were formed by participants on the morning of November 2 to focus on benefit measurement, systems methodology, and training. These meetings were originally considered extra, and were intended to provide opportunities for participants to delve into more detail on topics of special interest. In the end, however, they were quite central to achieving workshop purposes.

## 3. CONCLUSIONS AND RECOMMENDATIONS ON THE PROCESS

The following conclusions and recommendations on the small group process were made:

1. The small groups helped achieve the objectives of efficient use of time and full participation at the workshop. The participants generally liked the small group process.

2. The questions addressed in the small groups needed to be more precise or the time to answer them longer. Although participants liked the process, they generally felt pressured. Next time, fewer questions should be posed, and they should be more precise. More time for ad hoc sessions could also reduce the pressure.

3. It appeared that the discussion was dominated by those who had read most carefully the papers by Kilby and D'Zmura, and Hunt. Although the papers were mailed in advance, those who did not read them were handicapped during the discussion of the questions posed for each small group. Getting all participants to read advance materials is a common challenge for workshop organizers. For the next workshop, paper summaries will be provided.

4. Most rapporteurs did a good job of verbally reporting small group ideas back to the plenary group. However, the written recordkeeping by the groups ranged from excellent to fair, allowing some important ideas to be lost. Next time, a better written record of discussions must be ensured, perhaps by contracting for the services of recorders.

5. It was fortunate that so many key resource people, PVO leaders, and donor representatives were involved in the workshop. A network of people concerned with small-scale enterprise development has emerged and should be utilized in the future.

6. Participants generally liked the plenary sessions, especially the opening and closing. There was a sense that progress was being made toward learning something useful and practical about small-scale enterprise development.

7. The ad hoc sessions on the final morning turned out to be essential to workshop success. These sessions were necessary because recommendations for future action emerged from them.

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8. Even though much information from the sector was consolidated at the workshop, there is an evident unsated demand for information on small-scale enterprise development. This is true within the Agency for International Development (AID) and among the PVOs. The Office of Private and Voluntary Cooperation, Bureau for Food for Peace and Voluntary Assistance, as well as other elements of AID, will need to gear up to meet increasing demands for this kind of information.

APPENDIX H

PARTICIPANT EVALUATION OF THE
SMALL-SCALE ENTERPRISE DEVELOPMENT WORKSHOP

Workshop participants were asked the following questions. Their responses are given below the question, and the number of responses are given in parentheses.

1. Did the workshop meet your expectations?

   -- Yes (13)
   -- No (2)

2. What did you think was the strongest part of the workshop?

   -- Small group sessions/process (6)
   -- Plenary sessions (4)
   -- The paper by Kilby and D'Zmura (4)
   -- The paper by Hunt (2)
   -- Good resource people participated (2)
   -- The opening plenary session (1)
   -- The closing plenary session (1)
   -- The Liedholm findings (1)
   -- Full participation of top staff of the Agency for International Development (1)
   -- Good AID support staff (1)
   -- Sufficient agenda structure (1)
   -- Everyone participated (1)
   -- PVO effectiveness assessment (1)
   -- Studies circulated in advance (1)

3. What did you think was the weakest part of the workshop?

   -- Questions/tasks were too broad/imprecise to be covered in the available time (8)
   -- Small groups needed better format (3)
   -- Some rapporteur feedback was hard to follow (2)
   -- Major papers lacked summaries (1)
   -- Not all small group ideas generated were recorded (1)
   -- Overall forum discussion was limited (1)
   -- Participants were not familiar with literature (1)
   -- More participation by practitioners needed (1)
   -- Workshop served Bureau for Food for Peace and Voluntary Assistance needs more than PVOs or field staff (1)
   -- Workshop purposes were not fulfilled (1)
   -- Workshop ground rules were not communicated (1)

4. Were the logistical arrangements satisfactory?

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-- Yes (15)
-- No (0)

5. What improvements in logistics were needed?

-- No responses

6. What recommendations would you make for future workshops?

-- Do another workshop within the year (3)
-- None (3)
-- Have donuts/bagels with morning coffee (2)
-- Continue postworkshop assistance (1)
-- Set up ongoing working groups by topic (1)
-- Have more active group leaders (1)
-- Rotate participants in small groups (1)
-- Better prepare points to be discussed in small groups (1)
-- Have different questions for different groups (1)
-- Have concrete conclusions at the end of the workshop (1)
-- Have a longer workshop (1)
-- Include more Bureau for Private Enterprise representatives (1)
-- Have a clearer workshop purposes (1)
-- A good beginning: Keep it up! (1)

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